

Message Text

LIMITED OFFICIAL USE

PAGE 01 STATE 060217
ORIGIN TRSE-00

INFO OCT-01 NEA-10 IO-13 ISO-00 AGRE-00 CEA-01 CIAE-00
COME-00 DODE-00 EB-08 FRB-03 H-01 INR-10 INT-05
L-03 LAB-04 NSAE-00 NSC-05 PA-01 CTME-00 AID-05
SS-15 STR-07 ITC-01 USIA-06 SP-02 SOE-02 OMB-01
DOE-11 /115 R

DRAFTED BY TREASURY: E.BARBER:CJF

APPROVED BY STR: J.T STEWART

AGRICULTURE: J.BENSON (SUBS)

COMMERCE: D.GARDNER (SUBS)

LABOR: W.RENISON (SUBS)

STATE: S.LYNN (SUBS)

-----026730 090510Z /15

P 090117Z MAR 78

FM SECSTATE WASHDC

TO USMISSION GENEVA PRIORITY

INFO AMEMBASSY TEL AVIV PRIORITY

LIMITED OFFICIAL USE STATE 060217

ALSO FOR MTN

E.O. 11652: N/A

TAGS: ETRD, EFIN, GATT

SUBJECT: GATT COUNCIL - ISRAELI REQUEST TO RAISE SPECIFIC
DUTIES

REFERENCES: (A) GENEVA 3281; (B) GENEVA 3071; (C) STATE
49203

1. WASHINGTON AGREES WITH GENEVA (REF B) THAT A MEANS
SHOULD BE SOUGHT TO CONFIRM APPLICABILITY OF ARTICLE II:6(A)
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 STATE 060217

UNDER A FLEXIBLE EXCHANGE RATE SYSTEM. WE ALSO SHARE YOUR
CONCERN ABOUT PRECEDENTS WE MAY BE SETTING. WE THEREFORE
WOULD PREFER THAT NO FINAL DECISION BE REACHED AT MARCH 14
COUNCIL SESSION, BUT THAT ISSUE BE DISCUSSED AND REFERRED
TO A WORKING PARTY TO WORK OUT RECOMMENDATIONS FOR THE
NEXT COUNCIL MEETING.

2. THIS WILL NOT BE FIRST TIME ARTICLE II:6(A) HAS BEEN SUBJECT TO INTERPRETATION. IN 1961 URUGUAY REQUESTED AUTHORITY TO INCREASE AFOROS (OFFICIALY-FIXED VALUATION ON WHICH A SPECIFIC OR AD VALOREM DUTY IS ASSESSED) SET FORTH IN SCHEDULE XXXI TO REFLECT AN 83 PERCENT DEVALUATION OF THE PESO. URUGUAY ARGUED THAT THIS PROPOSAL WAS COVERED BY ARTICLE II:6(A). GATT WORKING PARTY LIMITED ITS INQUIRY TO QUESTION OF WHETHER THE PROPOSED INCREASES WOULD IMPAIR THE VALUE OF GATT CONCESSIONS, "BEARING IN MIND THE CHANGES IN THE VALUE OF THE CURRENCY". THE INCREASES WERE AUTHORIZED. (BISD TENTH SUPPLEMENT PAGES 34 AND 199. SEE ALSO THIRTEENTH SUPPLEMENT PAGE 20.) ALTHOUGH THIS IS NOT A DIRECT PRECEDENT IN THE PRESENT INSTANCE BECAUSE URUGUAY'S EXCHANGE RATE WAS FIXED, IT NEVERTHELESS ILLUSTRATES HOW THE CONTRACTING PARTIES DEALT WITH A REQUEST NOT DIRECTLY COVERED BY ARTICLE II:6(A) AND SO SUGGESTS SOME APPROACHES TO THE ISRAELI PROBLEM.

3. QUESTIONS INVOLVED IN THE PRESENT CASE INCLUDE THOSE SET FORTH IN REFTELS, SUCH AS APPROPRIATE MEASURE OF DEVALUATION, APPROPRIATENESS OF TARIFF ADJUSTMENTS UNDER A FLOATING EXCHANGE RATE REGIME, AND EXTENT OF PERMISSIBLE ADJUSTMENT. ALSO, IS REDUCTION OF SPECIFIC DUTIES APPROPRIATE WHEN A CURRENCY APPRECIATES (SWITZERLAND)? FURTHER, HOW OFTEN AND UNDER WHAT TERMS MIGHT THESE ADJUSTMENTS BE MADE? BEGIN FYI. THE QUESTION OF HOW TO MEASURE THE LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 STATE 060217

ISRAELI POUND'S DEVALUATION IS TICKLISH. THERE IS SOME SUPPORT IN WASHINGTON FOR USING THE SDR FOR THIS PURPOSE SINCE IT IS AN AGREED EXISIING UNIT WHICH COULD NOT BE MANIPULATED TO SUIT AN INDIVIDUAL COUNTRY'S PURPOSES. ON THE OTHER HAND, THE USE OF THE SDR (OR PROBABLY A TRADE-WEIGHTED BASKET OF CURRENCIES) WOULD INCREASE THE CALCULATED DEVALUATION, AND HENCE THE PERMISSIBLE LEVEL OF DUTY INCREASES BECAUSE OF THE DOLLAR'S RECENT DECLINE. END FYI.

4. AS MISSION INDICATES IN REFTEL (B), IMF IS MOST RELUCTANT TO ISSUE OPINIONS ON MANY OF THE QUESTIONS RAISED HERE, PARTICULARLY THE APPROPRIATENESS OF ISRAEL'S EXCHANGE REGIME. THE MOST IMF WOULD BE LIKELY TO SAY IN A STATEMENT TO GATT WOULD BE WHETHER ISRAELI EXCHANGE ARRANGEMENTS ARE BEING MAINTAINED CONSISTENTLY WITH THE ARTICLES OF AGREEMENT. NOR WOULD FUND'S DEPUTY GENERAL COUNSEL (PROTECT) AGREE THAT MEASUREMENT OF ISRAELI POUND'S DEVALUATION AGAINST THE DOLLAR IS NECESSARILY INAPPROPRIATE, OBSERVING ONLY THAT THERE MIGHT BE BETTER MEASUREMENTS AVAILABLE (SUCH AS WITH RESPECT TO A TRADE-WEIGHTED BASKET).

5. THE FUND HAS HAD SEVERAL RECENT EXCHANGES WITH THE GATT SECRETARIAT OVER QUESTION OF WHAT CONSTITUTES AN APPROPRIATE TARIFF ADJUSTMENT IN LIGHT OF A PARTICULAR SHIFT IN EXCHANGE RATES. NO CONCLUSIONS WERE REACHED. AS A RESULT, THE IMF WOULD LEAVE IT TO GATT TO DECIDE ON A FORMULA FOR CONVERSION OF SPECIFIC TARIFFS IN LIGHT OF NEW EXCHANGE RATES. IMF REPRESENTATIVE COULD, OF COURSE, BE AVAILABLE TO CONSULT ON THE "NUMBERS" INVOLVED, BUT PROBABLY WOULD DUCK IF ASKED TO INDICATE AN EQUIVALENT TO THE "PAR VALUE" STANDARD CONTAINED IN ARTICLE II:6(A).

6. MISSION THEREFORE SHOULD RESPOND TO ISRAELIS AND TO SECRETARIAT ALONG FOLLOWING LINES:

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 04 STATE 060217

A. WE AGREE WITH THE PRINCIPLE THAT ARTICLE II:6(A) SHOULD APPLY UNDER A SYSTEM OF FLEXIBLE EXCHANGE RATES, AND COULD SUPPORT "INTENT" LANGUAGE AS SUGGESTED IN REFTEL (A).

B. THIS PROBLEM IS SUFFICIENTLY COMPLICATED AND IMPORTANT, HOWEVER, THAT WE DO NOT BELIEVE IT POSSIBLE TO WORK OUT A PROPER SOLUTION BEFORE THE MARCH 14 COUNCIL MEETING. WE SUGGEST, THEREFORE, THAT THE COUNCIL ESTABLISH A WORKING PARTY TO REVIEW THE ISRAELI REQUEST WITH THE IMFs PARTICIPATION AND RECOMMEND A SOLUTION TO THE NEXT COUNCIL MEETING.

C. THE WORKING PARTY'S RECOMMENDATION SHOULD BE CAREFULLY (AND RATHER NARROWLY) FRAMED IN TERMS OF THE IMMEDIATE ISSUE IN ORDER TO RESTRICT ITS VALUE AS A PRECEDENT TO SIMILAR CASES.

D. WE WOULD APPRECIATE AN EXPLANATION OF HOW THE ISRAELIS DETERMINED THE "REPRESENTATIVE RATE" MENTIONED IN THEIR STATEMENT (REFTEL (A)). WHAT IS THEIR CALCULATION OF THE EXTENT OF DEVALUATION? (BEGIN FYI. WE CALCULATE 62 PER-CENT. END FYI.) VANCE

LIMITED OFFICIAL USE

NNN

Message Attributes

Automatic Decaptoning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: COMMODITIES, SPECIFIC DUTIES
Control Number: n/a
Copy: SINGLE
Draft Date: 09 mar 1978
Decapton Date: 01 jan 1960
Decapton Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978STATE060217
Document Source: CORE
Document Unique ID: 00
Drafter: E.BARBER:CJF
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D780105-0918
Format: TEL
From: STATE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780387/aaaacvmw.tel
Line Count: 158
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 84694cca-c288-dd11-92da-001cc4696bcc
Office: ORIGIN TRSE
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 78 GENEVA 3281, 78 GENEVA 3071
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 05 may 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: N/A
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 3385377
Secure: OPEN
Status: NATIVE
Subject: GATT COUNCIL - ISRAELI REQUEST TO RAISE SPECIFIC DUTIES
TAGS: ETRD, EFIN, IS, GATT
To: GENEVA
Type: TE
vdkgvgwkey: odbc://SAS/SAS.dbo.SAS_Docs/84694cca-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014